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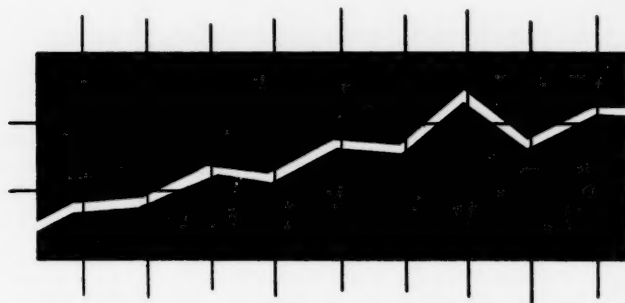
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PUBLIC POLICY ON ECONOMIC SECURITY

Safeguards Against Disaster

BY EDWIN E. WITTE

Social security, part of an over-all scheme of safeguards against economic disaster, is one of the most important aspects of present-day government, in the view of this expert.

THE TERM "social security" is one which has varying meanings. In its present meaning it is a relatively new term dating back no further than the Social Security Act of 1935. It was first applied in the United States to all programs dealt with in that Act. From that it was soon expanded to include, also, related social welfare programs and the common purpose served by all such programs.

Outside of this country, the term "social security" did not come into general use until it was adopted by the International Labour Office in several publications and statements about 1940. It remains an evolving and growing term and has a somewhat different content in nearly every country. But it is now in use throughout the world and with much the same meaning, although there are differences as to the institutions to be included within this collective term.

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If this generalization must be qualified, the qualifications apply to the use of the term "social security" in the United States in the present day. Two meanings of the term have developed in this country within the last decade which are divergent from its international use. One of these is to restrict "social security" to old age, survivors, and disability insurance. This is the largest social security program of the United States, accounting for about 40 per cent of all expenditures for social security; but it is only one of a considerable number of such programs provided for in the original law and now existent in this country and throughout the world. The other meaning which has developed in this country is to include as "social security" not only the governmental programs so designated the world over but private programs serving related purposes, such as industrial pension and health and welfare plans. Such a broadening of the term not only departs from world practice but slurs over a significant differences in objectives. While in the book I am writing on *Social Security in the United States and Abroad* I deal with these private security institutions, I regard them only as institutions related to social security and prefer the international use of the term.

This world-wide meaning of "social security" is best grasped when a distinction is made between social security as an objective and social security as a

group of institutions for the realization of this objective.

OBJECTIVE AND INSTITUTION

Social security as an objective has been set forth in many statements subscribed to by all or most civilized nations. I like Article 25 of the Universal Declaration of Human Rights, which was adopted by the United Nations in 1948:

Everyone has the right to a standard of living adequate for the health of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right of security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

As this statement sets forth, social security is concerned with a necessary minimum income for all essentials of life on the occurrence of the immediate personal causes of dire want and suffering. Implicit is the assumption that it is the function of government to see to it that all people have a minimum income adequate for all essentials in all circumstances beyond their control. This does not imply that the government is to assume responsibility for the support of all people. This may be considered desirable in communistic nations, but not in a free society. Government is not obligated to provide an individual and his dependents with an income sufficient for an acceptable standard of living regardless of what he himself may do, but only to make provisions to assure a minimum necessary income on the occurrence of the personal contingencies of life which are beyond his control. Expressed differently, a civilized nation cannot be indifferent to starvation in its midst. It must do all that it can to prevent the occurrence of personal disasters; but not all can be prevented. Some are

part of the life cycle itself; and while others can be prevented or, we hope, may be prevented in the future, the fact is that millions of Americans suffer from their occurrence and need governmental aid to avoid their worst consequences.

The Hazards. There are personal hazards whose consequences are want and dependency for many people at every stage of life. A large percentage of all children are born in the homes of the poor. Millions of children lack a normal breadwinner. All human flesh is subject to illness and the costs of adequate medical care are increasing at a most rapid rate. Accidents cause a greater loss of working time than even heart disease. At all times there is a good deal of involuntary unemployment, and unemployment becomes alarming in periods of recession or depression—whatever we may now be experiencing. Almost as many people are unable to work for reasons of health before they reach age 65 as have jobs after that age. Nine per cent of all Americans are in the age group 65 and over, and their numbers and percentages are rapidly increasing. Median life expectancy after 65 is now such as to equal one third of the entire productive period of life and the other half of the older people live longer. Death ends the worries of the individual but often means economic disaster for the family.

Despite the high levels of average personal income, a large percentage of Americans do not have sufficient income or resources to meet the costs of the occurrence of the serious personal contingencies. President Roosevelt often referred to "the one third of all Americans who are ill-fed, ill-housed, and ill-clothed." This percentage now may be down to one fifth or one sixth of all Americans, but still numbers many millions. Even people of wealth may lose it all in depressions and other disasters. A minimum income necessary to defray the costs of living on the

occurrence of the personal contingencies of life is an essential for everybody, but is most important for ordinary people, who constitute the bulk of the population. In poor economies this is no more than a bare subsistence income, but in wealthier societies, such as that of the United States, the concept of social security calls for not merely an assurance of a survival income, but for a decent and reasonable minimum which contemplates improvements in the standard of living of the poor as well as of the rich.

Advocates of social security recognize that the prevention of the occurrence of the personal calamities which are the immediate causes of much want and dependency is preferable to anything that may be done thereafter. But prevention is not possible in all cases. Some personal hazards are part of the life cycle, for instance childhood and old age and, in a certain sense, sickness. Whether preventable or not, when the personal calamities strike there must be a necessary minimum income for a reasonable existence in accordance with standards approved by the American public.

How Much Help? This, in the United States, is an income larger than necessary to keep body and soul together, but makes no provisions for luxuries. For luxuries and even most of the comforts of life, the individual is dependent upon himself and his family. Nor does social security seek to eliminate variations or fluctuations in income. That may be deemed desirable by many people, including many economists, but has never been the objective of social security. Social security is not a panacea for all economic ills. It does not and, I believe, should not attempt to guarantee an abundant and stable economy; nor should it be appraised exclusively or mainly for such a point of view. Social security is oriented to the needs of the individual and his family, not to the welfare of the economy as a whole.

This is a limited objective and, perhaps, less important than those of present-day macro-economics. But it is not a negligible matter in a free society. Individual welfare is the central objective of all economic activity in the western world. Maintenance of a minimum necessary income for all people on the occurrence of the personal contingencies of life is not only consistent with free enterprise but a cornerstone of its structure. It is unthinkable that Americans would starve peaceably. Without an assurance of a reasonable living, not only will people not put forth their best efforts, but they will not long go along with the continuance of our current economic way of life and our democratic institutions.

This is not a New Deal idea. It has been a part of the American way of life from the beginning. Shortly before the Jamestown Colony was established, England enacted the Poor Law of 1601, which was a codification of earlier enactments. This law made every parish responsible for the care and support of the poor resident therein. This principle of public responsibility for economic support of the people without other means and the institution of poor relief were brought by the earliest English-speaking settlers to this continent and became a part of the statutes of every colony very soon after its establishment and later of every subsequent territory and state. In a very real sense the present social security institutions had their origins in the age-old poor law and are refinements and improvements of this institution.

A quite complex variety of social security institutions designed to make the objectives of social security a reality has developed in the United States, and still others in other lands. Many had their origins late in the nineteenth or in the present century, but some are direct descendants of the old poor relief.

THREE TYPES OF ASSISTANCE

Public. The existing social security institutions are classifiable into three groups: public assistance, social insurance and social services, and miscellaneous social security institutions. Public assistance, stemming directly from poor relief, is the oldest of these. It has been developed more fully in the United States than in any other country. In all public assistance programs aid is given only to people in immediate need and that aid comes from the general treasury. Five major public assistance programs are now in operation, all established by state law and administered by the states or by local governments under state supervision. Four are programs for clearly distinguishable groups among the people in need and for all of these financial aid is given by the national government to the states: old age assistance, aid to dependent children, aid to the permanently and totally disabled, and aid to the blind. Plus these four "categorical" public assistance programs, all states provide for general assistance or "public assistance" or "relief", as it is variously known. This is the old institution of poor relief but slightly modified—a catch-all program for all people in immediate need, provided for in state law but, frequently, locally administered and financed, sometimes with state aid, but everywhere without federal aid.

Social Insurance. Of later development but today more than twice as important in the number of direct beneficiaries and in dollar terms is social insurance. This serves the same basic objectives, but does so on a self-financed, budgeted basis, without drawing on general governmental revenues. Payments are made, not as a gratuity, but as a right on the fulfillment of conditions prescribed in advance. These depend not on a showing of dire need, but of inclusion within the system (and, often, of contributions to its costs) and the occurrence of personal hazard against

which protection is provided. Of the social insurance programs the largest is old age, survivors' and disability insurance—the only national social security program with general coverage. Looming a close second in importance and at the present time much more in the public attention is unemployment insurance, established by state law and administered by the states, with federal aid for administration. Older than either old age, survivors' and disability insurance or unemployment insurance is workmen's compensation, wholly state controlled; newer, cash sickness compensation, which exists only in four states and under federal law for railroad employees. Unlike most other countries, we do not have compulsory health insurance and no general system of disability or invalidity insurance.

Social Security as Such. Social security services and miscellaneous social security institutions have become so important that they merit recognition as a third general type of social security institutions. Largest are veterans' pensions and services, with public health and medical services a close second—both of which overshadow in expenditures the combined total of all public assistance programs. Also included are vocational rehabilitation and other services for the blind, the disabled and the handicapped and, recently, the aged. These service programs, generally, do not involve cash payments but preventive, curative and remedial forms of aid.

Private Institutions. Not classified by me as social security institutions but so treated by many able writers on the subject are the private institutions which, as has been noted, are often included within the term "social security" as used today in the United States. Such has been the growth in the last two decades of industrial pensions, health and welfare plans, group life insurance, and supplemental unemployment compensation that almost as much is being expended for these non-govern-

mental purposes as upon all social insurance programs; and the reserves already accumulated in these private programs greatly exceed those in the public programs.

Social security is not all important but has a significance in the United States of today far greater than economists have assigned to the subject. On the two types of social security institutions which everybody agrees should be thus characterized—social insurance and public assistance—Americans are today expending more than \$15 billion per year. Adding to those the social services which most everybody agrees are social security institutions, brings the total annual expenditures for social security to above \$20 billion; and related private institutions increase the total in excess of another \$5 billion. Expenditures for social insurance and public assistance alone account for more than 3 per cent of the national income. This is a much smaller percentage than were the relief expenditures of the nineteen thirties, but is not much less than the combined total of the expenditures for all forms of private insurance. The aggregate benefit payments under governmental social security programs in the United States today, moreover, are twice as large as in all types of private insurance combined.

The large total amounts spent for social security result from the large numbers of Americans who are direct beneficiaries rather than from large individual or average payments. In round numbers, eleven million Americans today get benefits in the OASDI program; more than three million are currently receiving unemployment insurance; above six million are beneficiaries under one or another of the public assistance programs. Average payments are small, although higher in the United States than in any other country. The average old age (retirement) benefit is only \$65 per month, and survivors and dependents get only a little more than half this amount.

Unemployment insurance averages less than \$30 per week, equivalent to \$125 per month. Assistance payments average between \$50 and \$60 per month. These are not amounts to boast about. Admittedly they are not much above subsistence payments at present levels of the cost of living. In all programs, also, there are numerous other restrictions besides those holding down the average benefits, which operate to deny all benefits to many persons who suffer from the occurrence of the hazard against which the program is designed to provide protection.

WHERE ARE THE GAPS?

Great progress has been made in the United States in social security in the last quarter century. But we have great lacks and gaps in our provisions for social security. We have no governmental health insurance in this country, as do nearly all other civilized nations. In lieu of compulsory health insurance, we have had a pronounced growth in voluntary health insurance and a very great increase in medical care at the taxpayers' expense; but the costs of medical care the individual must bear have continued to mount and are prohibitive for many Americans. We have made only a feeble beginning with disability insurance. We have no system of family allowances, as do Canada, most of the countries south of the border, and the majority of the European countries. Every social security program we have has many inadequacies and inequities and is in great need of improvement.

This fact does not lead to the conclusion that we should abandon our social security programs. President Roosevelt, in the message out of which developed the Social Security Act Amendments of 1939, expressed the thought that we will make the greatest progress if we look upon social security not as a finished product but as a goal toward which we are striving, and as

a group of programs which must ever be improved as need therefor is demonstrated and it is possible to move forward. This is a sound approach, as I see it.

The Beveridge Report. Fifteen years ago there was much support in this country for a unified social security program. This developed, largely, out of the Beveridge Report in England in 1942. After decades of experience with social security institutions, which we developed, if at all, many years after England, Sir William, now Lord, Beveridge proposed an almost completely unified social security program to replace the many separate institutions, which, like social security in other countries, had developed piecemeal to meet recognized special needs. This program called for the substitution of a unified social security program for the varied piecemeal programs, coverage of all risks and of practically all people, uniform benefits, and single contribution rates. In discussing his plan, Beveridge emphasized that it was designed for England only and was grounded in its historical and institutional background. Most specifically he cautioned that it should not be treated as if it were a plan suited for all countries. Nevertheless, it was greeted enthusiastically everywhere and many people in this country called for an American Beveridge Plan. These proposals got precisely nowhere and at this time have importance only in textbooks. An all-inclusive, unified, logical system of social security seems remote in the United States and, I believe, will come only after much further experience with piecemeal programs and a much better understanding of basic purposes and needs.

Unemployment Insurance. At this time the greatest interest is in unemployment insurance. Proposals for quite far-reaching changes in unemployment insurance have been advanced by the President and his Secretary of Labor,

by the AFL-CIO, and by many individual members of both Houses of the Congress. There are also unemployment insurance bills before most or all of the few state legislatures which have regular sessions in even-numbered years. Hearings on the proposals for national legislation were recently conducted by the House Ways and Means Committee and conflicting reports are coming from Washington as to the action likely to be taken. New York has materially improved its unemployment insurance law, but such legislation is stalled in Michigan. If unemployment becomes more serious than it is today, radical changes in our present system are not unlikely. At the moment, however, the prospects seem to be that the old disagreements over the extent of federal control will defeat any major improvements and also all effective aid to those of the unemployed who exhaust their benefit rights.

No Change in OASDI. Similarly, the prospects for improvements in old age, survivors' and disability insurance in 1958 seem rather poor. Congress quite extensively revised this program in 1950, greatly extending its coverage, liberalizing the conditions for payment of benefits, and more than doubling the amount of the benefits. Further improvements were made in 1952, 1954, and 1956. That new proposals along this line were expected to come before Congress in the next election year—that is in this year 1958—was indicated in the provisions of the Social Security Act Amendments of 1956 for the establishment of a new Social Security Advisory Council. But the appointment of this Advisory Council was delayed for a year and when appointed it was warned against proposing changes which would increase the costs of the benefits. Organized labor has come forward with a bill making modest improvements in the present benefits, including hospitalization benefits for aged beneficiaries. Other bills also are pending in the

Congress. No hearings have been held on any of them and it would surprise me if anything at all is done this year to strengthen our old age, survivors' and disability insurance system.

Even much smaller seem to be the chances for improvements in disability insurance, with which we made a small start in 1956. And there is no present possibility of anything suggesting compulsory health insurance. In lieu thereof it is not unlikely that we will have increased and new appropriations for health research and medical care, as has been the trend in recent years. Increases in payments under the assistance programs also are a possibility, particularly if old age insurance benefits are increased.

FUTURE IMPROVEMENTS

So much for this year, in which I do not look for any major improvements in the existing social security programs, despite increasing need therefor. The longer time prospects, however, seem to me to be much brighter. Social security enjoys great popularity in the United States and has become a recognized part of the American way of life. Even in a long period of a pronounced trend toward conservatism, our social security institutions have been improved. The political pendulum swings back and forth in a democracy. If unemployment continues high, if farm prices do not improve, and if legislation is enacted which labor deems unfair, it would not surprise me if a pronounced trend toward radicalism developed as early as the elections this fall. However that may turn out, I believe that improvements in our social security institutions will be made as the years elapse—not as rapidly as I would like, but quite certainly.

Radical new approaches to social security do not appeal to me, any more than does standing still where we now

are. But I do not rule out such a possibility, if we get a depression of the magnitude of the great depression. It is conceivable that we might abandon self-financed, contributory social insurance in favor of a relief or hand-out system—a sort of Santa Claus state. And we may in time develop unitary government in this country, with the states reduced to the role of administrative subdivisions to carry out nationally determined policies. This, it seems to me, is most likely to occur if the states fail to materially improve the social security programs which they control.

I am inclined to be a conservative and have reached an age at which I believe greater progress can be made by building upon what we have than by tearing down and trying to rebuild. I believe that social security should be judged on its own merits, rather than be looked upon as a tail on a kite of economic policy. It is more than a minor device to promote economic stability. Still less is it a program for the redistribution of income. But it serves an important need for the welfare of individuals and families.

As I see it, the basic concepts on which social security in the United States have been developed are sound. I cannot envisage a social security system which in the foreseeable future will attempt to provide more than a reasonable minimum income, in accordance with American standards, on the occurrence of the personal hazards of life. I place great stock, both for the individual and the nation, in the widest possible use in social security of advance planning and budgeting and contributions to the costs by prospective beneficiaries. These principles have been adhered to to date and, I believe, have worked well. At the same time, I recognize that our social security institutions need improvement in many respects.

A CHALLENGE TO ECONOMISTS

There needs to be greater attention to social security on the part of economists. If economics is no more than what has come to be called economic theory, social security is but of minor importance in economics. If its subject matter is an understanding of all aspects of the economic side of life, as the founding fathers of the science of political economy conceived it to be, this is a subject of very considerable importance in the present-day economy of the United States and of the world at large. In all probability its importance will be even greater in the years which lie ahead. If, as I believe, economists should make contributions to the solution of practical problems of current interest, social security should prove one of the most rewarding of subjects that can be studied at this time.

Social security has gotten into the curricula of a considerable number of colleges and universities. Often, however, the courses on social security are not in the department of economics. They occur quite commonly in the schools of social work or in the departments of political science or sociology. Some courses in social security in departments of economics deal only with

aspects of the subject which fall within the rubrics of economic theory narrowly interpreted. Most disturbing is the fact that economists generally know little or nothing about social security and do not advise students to become acquainted with the subject. Relatively few economists have had much to do with the development or administration of social security. Nor is there evidence of improvement in these respects. As social security has become more important, economists, it seems to me, have become if anything less interested in the subject and inclined to surrender it to sister social sciences.

Social security is worth studying. It offers some job opportunities for trained personnel. It is a subject of direct interest to millions of prospective beneficiaries. It represents one of the most important activities of present-day government. It is a subject about which citizens need to be much better informed than they now are. It is a field in which progress and improvement are much to be desired. Not all is known about the subject that needs to be known. Opportunities for making contributions to a better America are very great. Surely, it is a subject economists should not neglect.

Win a Bet and Start an Industry

WHICH LEGS hit the ground together? Leland Stanford, the railroad executive, was having a hot argument with a friend about the gait of a race horse. Whether the two near legs or diagonally opposed ones worked at the same time became the subject of a sizeable bet. How to settle the question, in the days before the motion picture camera? They set up a battery of still cameras side by side along the rail for one-eighth of a mile of track, and individual photographers stood ready to snap the horse as he passed in front of each camera. The result was a series of shots of a horse in action; when printed side by side they clearly revealed the exact sequence in which the four legs performed. This famous series is still frequently reprinted in articles on the development of the movies. The next logical step was to have the continuity of pictures produced inside a single camera, and a new industry would be born.

Will the Seaway directly affect your community or will its advantages pass you by? A study of what is involved in taking advantage of the continent's largest public work.

The St. Lawrence Seaway and Michigan

By John L. O'Donnell

THE ST. LAWRENCE Seaway Project is a most ambitious public investment, involving an outlay of around \$263,000,000. With such an investment at stake, it is not surprising that the project has excited so much debate and speculation. The layman is confused by the wide differences of expert opinion regarding the advisability of such immense expenditures. However, now that the project is almost completed, we shall soon be testing these opinions against experience. It is timely, meanwhile, to recall the major navigational features of the project and assess their significance for Michigan.

PHYSICAL CHARACTERISTICS OF THE SEAWAY

There is an average difference of 560 feet in elevation between Lake Michigan and the tidewater at Montreal. This difference in elevation is overcome principally in two places: the Niagara Peninsula of Ontario, with the 27 mile long Welland Canal, and a 112-mile section of the upper St. Lawrence River between Prescott, Ontario, and Montreal. Here, some 46 miles of canals and 22 small locks enable vessels to circumvent rapids and other navigational hazards.

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These existing locks and channels limit the size of vessels able to transit the system to those having a maximum of 14 feet draft, 258 feet length, and 43 feet 6 inches width. As a result, the largest ocean-going vessels currently trading between foreign and Great Lakes ports have a maximum cargo capacity on the lakes of about 1,600 tons. Similarly, bulk lakers engaged in domestic commerce cannot transit the canals, and cargoes are carried in specially constructed barges of 2,000 to 2,600 tons carrying capacity. The St. Lawrence Seaway project, as defined by the Wiley-Dondero Act, 1954, provides for the replacement of 22 small, obsolete locks in the Prescott-Montreal section of the St. Lawrence River by 7 new larger locks. These new locks will be 800 feet long, 80 feet wide, and have 30 feet of water over the sills. The Welland Canal is also being deepened to this standard depth by Canada as part of the Canadian contribution to the project.

Simultaneously with these improvements, many of the Great Lakes connecting channels are being deepened to 27 feet. However, these concurrent efforts are not strictly part of the St. Lawrence Seaway Project, and are being undertaken by the United States under the 1956 Blatnik Act. In essence, then, the Seaway itself is nothing more than the enlargement of a canal system

which will permit larger ships to penetrate into the Great Lakes. Domestic lakers of 25,000 tons and ocean-going vessels of 8,000 tons capacity will be able to trade throughout the lakes from Duluth to Montreal. The anticipated potentials of the Seaway route rest upon the economic character of the Great Lakes region combined with the transportation savings facilitated by the larger vessels.

EXPECTED SAVINGS

The principle of economy of scale is well known in manufacturing industry. It is especially applicable to water transportation where pay-load capacity and costs are disproportionately related to vessel size. This can be appreciated by visualizing a vessel as an oblong container. If the linear dimensions of this container are *doubled* its cubic capacity is increased 8 *times*. Since construction costs of the enlarged container are considerably less than 8 times that of the old one, it follows that average costs per cubic foot have been reduced. Furthermore, the larger vessels require proportionately fewer crew, which fact, together with other related economies, enables the operator to reduce freight shipping costs. The savings are especially noticeable in the movement of bulk items of low unit value, like cement, coal, grains, and iron ore. These items already constitute over 80 percent of the total tonnage currently transported on the Lakes.

THE ECONOMIC BASE

These potential transportation savings must be visualized in the context of the industrial concentration that has taken place around the Great Lakes and St. Lawrence River. Of the 33 metropolitan areas in the United States with populations of over 500,000, fifteen are either directly on the Great Lakes, or are closer to lake ports than to tide-water ports. Of the 7 larger Canadian

metropolitan areas with populations in excess of 250,000, four are lake ports and two others are within the immediate hinterlands of ports along the St. Lawrence-Great Lakes route. This region contains the industrial heart of the United States, and the bulk of our heavy industries. These industries are becoming yearly more dependent upon foreign sources of supply for their raw materials. In fact, it was the growing shortage of domestic iron ore which induced the powerful steel interests to support the Seaway Project. A stream of cheap, high quality Labrador ore is already flowing directly to Pittsburgh and Youngstown, via the St. Lawrence route and Ashtabula, Ohio. About three-fifths of our total imports consist of crude or semi-manufactured items like tin, nickel, natural rubber, jute and flax fiber, raw silk, diamonds, manganese, bauxite, and newsprint. Already, all of our manganese—essential to steel output—and three-quarters of the bauxite from which aluminum is produced, are imported. An additional one-fourth of U. S. imports represents foodstuffs, a large part of which cannot be economically grown domestically. Of the 3 billion dollars in food imports in 1957, coffee accounted for 1.4 billion, tea, cocoa, bananas and spices 400 million. Most of these food items and raw materials are particularly sensitive to any change in transportation costs.

As for the export picture, a large part of the 19 million dollars worth of U. S. goods exported last year consisted of manufactured goods and farm products produced in the Midwest states immediately bordering upon the Great Lakes. For example, latest annual figures indicate that one-fifth of all motor truck sales are made to overseas customers. Over a quarter of the tractors produced in the U. S. are exported, and foreign purchases of other farm machinery represent about 13 percent of total demand. Shipments abroad of construction equipment aggregate 26 percent of total output and

overseas sales take about 11 percent of the output of machine tools.

Midwestern and Great Lakes firms predominate in each of these industries. For example, this area accounts for 35 percent of the total payroll of machinery manufacturers in the U. S., 35 percent of transportation equipment producers and 29 percent of metals and metal products firms. In 1957, these industries exported almost half of total U. S. non-agricultural overseas shipments. The trade volume of wheat, fats, oils, and hides produced by Midwestern farms is too well known to need elaboration.

CURRENT STATUS OF SEAWAY ROUTE

This broad economic base has already made the Great Lakes-St. Lawrence route into a major commercial artery. Between 1947 and 1957 the volume of domestic lakewise shipments has increased on the average more than a million tons each year. An even more phenomenal rate of growth is exhibited by direct foreign shipments which rose from around 2,000 tons in 1945 to nearly 700,000 tons in 1957. Most experts agree that it is one or both of these two types of traffic which constitute the immediate potential for Great Lakes ports. It is also generally agreed that the revival of domestic general cargo movements must wait upon substantial reductions in the cost of handling general cargo at the terminal.

WHY BUILD A PORT?

This picture has induced several lake ports to conduct studies designed to discover what share of this flood of commerce might be attracted to themselves. Buffalo spent \$50,000 on a port survey, the Oswego Chamber of Commerce \$20,000, while Duluth is currently investing \$76,000 for a survey conducted by the Business Research Division at the University of Minnesota. These expenditures are typical

and imply that a port is expected to yield substantial advantages to the surrounding communities. A great deal of competent research supports this belief. For example, a study published by the Canadian Department of External Affairs reveals that the vessel cargo payments of one cargo ship docking at an eastern Canadian port produce nearly \$68,000 of extra income for the local community each time the ship comes into port. Apart from this income-generating capacity, a port holds and attracts new industries which enrich the industrial opportunities for the population within the area. Both these factors are of special importance to a state like Michigan, which is so dependent upon the automobile industry.

MICHIGAN'S FOREIGN TRADE

Michigan's interest in foreign trade is immense, approximating a billion dollars a year of exports and about \$600 million a year of imports. Most of this trade is conducted with Canada, Western European, and Scandinavian countries. The bulk of Michigan's exports consists of manufactured goods, especially automotive equipment and other machinery, followed in importance by agricultural products. Apart from agricultural machinery, major imports consist of semi-processed or raw materials such as wood, newsprint, chemical woodpulp, nickel, aluminum, iron, and copper. Nearly every important industry in the state is dependent upon foreign trade for some part of its operations.

MICHIGAN PORTS TODAY

Despite our state's obvious stake in foreign trade, most of Michigan's foreign business is currently handled through the ports of New York, Boston, Philadelphia and Baltimore. Only Detroit has developed a sizeable volume of foreign traffic through its private terminals and the 5 terminals for hire

located in Wayne County. This traffic totals about 90,000 tons a year. Next in volume is Muskegon which is currently handling around 15,000 tons. Muskegon has possessed excellent terminal facilities for nearly 20 years, but aggressive traffic development only began three years ago when the local community encouraged the formation of a private export-import company, and supported port operations with extensive advertising. Port Huron handles about 4,000 tons of foreign bulk freight, but by far the predominant share of commerce moving through Michigan ports consists of domestic lake traffic. In fact, 14 Michigan ports handle over 1,000,000 tons of domestic bulk freight apiece. While this type of traffic will undoubtedly increase at most Great Lakes ports as the economy grows, the extent to which individual ports may benefit directly from the Seaway will depend upon their efforts to improve facilities which will enable them to handle the larger lakers and participate in foreign trade. In due time, as already mentioned, domestic general cargo traffic may become an added factor.

Today, port development on any appreciable scale is usually preceded by a survey designed to reveal the nature and size of any potential traffic. Three such reports have been executed for Michigan ports during the last 10 years. Two reports were prepared for the Port of Detroit Commission and one for the counties of Bay, Saginaw and Midland.

The most recent Detroit survey was published in 1956, and, like its predecessor of 1952, it assumed that the port's hinterland consisted of the entire Lower Peninsula. Other basic assumptions were:

- (1) Detroit would provide regular sailings to all parts of the world.
- (2) Transportation rates would be lower than by the alternative land-ocean routes currently used.
- (3) Adequate terminal facilities would exist.

The final tonnage potential arrived at totaled approximately 1,000,000 tons, although no attempt was made to break this figure down into bulk and general cargo items as was done in the 1952 study. This potential figure was sufficiently high to warrant the recommendation that Detroit needs to expand and improve its present terminal facilities by a substantial margin. However, implementation of these recommendations has been delayed by a basic political question which may confound many other similar projects around the Lakes: namely, the extent to which the proposed developments should be undertaken by public as opposed to private capital. The debate continues in Detroit, and it is impossible to predict accurately the outcome of this highly controversial question.

THE SAGINAW RIVER STUDY

The survey for Bay, Saginaw, and Midland counties was initiated by the Tri-County Seaway Study Committee, composed of representatives of the three counties. The Committee discovered that a scientific survey required the services of an outside impartial agency. With this in mind they requested the Bureau of Business and Economic Research at Michigan State University to undertake the study. Part I of this project was published this year and deals with the potential traffic available *if* suitable terminals are provided somewhere on the Saginaw River. Additional assumptions were:

- (1) Regular sailings will be available to all parts of the world.
- (2) Transit time through the proposed Bay City-Saginaw port to most destinations will be no longer than the combined land-water time through other U. S. ports.
- (3) Transportation charges through the Bay City-Saginaw port will be competitive with charges via alternative land-water routes.

- (4) Port charges in the Bay City-Saginaw port will be comparable to charges in other lake and coastal ports.
- (5) Competition from other Michigan ports will be restricted to Muskegon and Detroit.

The last assumption limits the hinterland of the proposed Bay City-Saginaw port to only a portion of the Lower Peninsula, whereas the Detroit studies assumed no effective competition from any other Michigan ports. Both approaches appear reasonable when judged in the light of conditions prevailing when each study was made. Part II of the Bay City-Saginaw study will be less comprehensive and is designed to point out the major problems inherent in converting potential tonnages into actual traffic movements.

The core of Part I rests upon a rate study which defines a port tributary area for the Saginaw River. On existing rate structures, any firm within this area would find it cheaper to ship goods abroad via terminals for hire on the Saginaw River than through Detroit or Muskegon. It is also demonstrated that if foreign trade were conducted through the proposed terminal facilities it could result in transportation savings of between 10 and 40 percent.

Firms within the tributary area were invited to give detailed information on their traffic movements. An analysis of the results produced a total potential foreign tonnage of about 190,000 tons, of which approximately 42,000 tons is general cargo; that is to say, cargo which is usually packaged, labelled, and loaded in discrete units rather than loaded by pump, pipe, or gravity methods of handling. This general cargo trade is particularly attractive because the revenue per ton of cargo accruing to the terminals, ship operators, and ancillary businesses is much higher than that yielded by bulk freight. The study seems to indicate that terminals for hire on the Saginaw River are worthy of serious consideration.

THE FUTURE

The potential of the St. Lawrence Seaway is limited by four factors, three of which are measurable and the fourth imponderable. First, the Seaway spills out high in the North Atlantic with the result that some world markets are economically inaccessible to ships sailing out of the Great Lakes. Second, the types of ships and volume of traffic will be restricted by planned channel depths and locks. Third, the route freezes over for 4 months of the year. The fourth factor is of a political nature, encompassing such things as tolls, the institution of export rates, and the adjustment of existing differential subsidies upon certain agricultural items. The manner in which these political questions are resolved will largely determine the volume of Seaway traffic, within the upper limits set by the physical restrictions already noted.

It is frequently observed that for most enterprises, transportation costs are becoming an increasingly important part of total costs. Any region which can reduce such costs will at the very least retain its relative position with respect to competing areas, or, as is more likely, will assure itself a competitive advantage. Michigan has much to gain from lower transportation rates. Cheaper raw materials would enable Michigan to reduce, or at least hold more stable, the rising prices of her manufactured goods. For example, low-cost steel is vital to the auto industry, which consumes 20 percent of total steel output.

By itself the Seaway is simply a large ditch which can accomplish nothing. Before this improved avenue of commerce can yield any benefits to Michigan, local communities must be prepared to translate proposed terminal facilities into reality. Once constructed, the port facilities must be promoted with intelligence and vigor because experience shows that terminals will not generate traffic automatically. Unless

all these things are done by our favorably located communities, the Seaway trade will be confined to a streak of smoke on the horizon as ships sail by to trade in other areas of the Great Lakes. Unfortunately, the research

which produced this article indicates that Michigan has not yet taken any appreciable steps which would enable her to seize a really notable portion of the new commerce which will be stimulated by the St. Lawrence Seaway.

Our Homemaker's Corner

Recently a subscriber complained that, while she liked our magazine, she felt that it was directed more to the interests of male readers than female ones. With this in view, we searched out an item that should put an end to charges that we do not have the ladies in mind. What could be more useful to the homemaker than the following recipe, unearthed from a popular 19th century "doctor book"?

CASTOR OIL CUSTARD

A very pleasant mode of administration, to boil the dose of oil with sweet milk . . . sweeten with sugar, and flavor with essence of cinnamon. It somewhat resembles custard in its taste and appearance, and is readily taken by even the most delicate stomach.

This is certainly very desirable with children and delicate females.



For those who would like a heavy quarto containing lots of goodies of this nature, we give the title in full:

Dr. Chase's 3rd Last and Complete Receipt (sic) Book and Household Physician or Practical Knowledge for the People, from the Life-Long Observations of the Author, embracing the Choicest, Most Valuable and Entirely New Receipts in Every Department of Medicine, Mechanics, and Household Economy; including a Treatise on The Diseases of Women and Children; in fact The Book for the Million.

by A. W. Chase, M.D., author of "Dr. Chase's Family Physician, Farrier, Bee-Keeper and Second Receipt Book" (Detroit and Minneapolis; the F. B. Dickerson Company, 1907), Memorial Edition (first published 1881).

Plans for European Economic Integration

BY MORDECHAI E. KREININ

SINCE THE END of World War II, it has become increasingly apparent that the political importance of Western Europe is on the decline. The emergence of two major world powers (the United States and the Soviet Union) has overshadowed the economic and political influence of even the largest Western European nations: Great Britain, Germany and France. Some of these countries have been further weakened by the loss of overseas territories.

DRIVE TOWARD UNITY

In order to counteract this decline, a strong drive toward Western European unity has developed in recent years. Although considerations for union have been bandied about Europe for some time, the approach and the impetus behind the present drive are new. There exists a definite feeling behind the leading "Europeans"—West Germany's Chancellor Konrad Adenauer, France's Guy Mollet, Belgium's Paul Henry Spaak, and Britain's Peter Thorneycraft—that the region must grow closer together if it is not to disintegrate. To some European countries the growth of nationalism throughout the world brought the realization that their future lies with Europe rather than with their overseas empires.

The purpose of the present unification movement is not to form a third political bloc in the world. Europe's

The European Common Market
The Scandinavian Common Market
The Free Trade Area

future will continue to lie with the Atlantic Alliance, alongside the United States. But unity would make Europe a strong and independent ally.

While the current plans for European unity are in the economic sphere, the impetus behind them and their final aim are both political and economic. Economic integration is expected both to strengthen the region economically and to serve as a stepping stone toward a political union. It is to plans for economic unification that the following pages will be devoted.

CURRENT PLANS

Three plans for economic integration in Western Europe are currently under serious consideration. The most definite scheme is for the formation of an economic union between the following six countries: France, West Germany, Italy, the three Benelux countries (Belgium, the Netherlands and Luxembourg) and their overseas territories. This plan is known as the *European Common Market* and is sometimes referred to as the *European Economic Community* (henceforth referred to as the ECM). The main feature of the ECM would be the establishment of a customs union consisting of the six member countries.

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All tariffs and other barriers to trade between the six countries would be eliminated, and the entire area would be surrounded by a common and uniform tariff on products imported from the outside.

Altogether, the six member countries have a population of 161 million and a gross national product (total annual production of goods and services) of \$125 billion. In integrating their economies they will be able to draw on a considerable amount of experience accumulated in recent years in two successful schemes, now operating. First, the three Benelux countries have had a customs union since 1947. And second, all the six ECM nations have had a common market in coal and steel under the Schuman Plan (known as the European Coal and Steel Community). By further integrating their economies they hope to achieve a high measure of economic unity, and move closer toward political unity.

While the plan for the ECM has already been ratified by the six parliaments, and its implementation started in January 1958, the second plan to be discussed here has not yet reached the negotiation stage. It is a plan for a *Free Trade Area* (henceforth referred to as the FTA) which would encompass the following twelve nations: The six ECM countries, Great Britain, Denmark, Sweden, Norway, Switzerland and Austria.¹ Altogether, they have a population of 239 million and a gross national product of \$205 billion.

The difference between a free trade area and a customs union (the main feature of the ECM) is not in the relationship among the nations forming the association. In both cases trade barriers within the area are to be eliminated. But while a customs union involves a common and uniform tariff around all member countries, a free

trade area leaves it up to the individual member to determine its own tariff rates on imports from *non-member* countries. A customs union, therefore, involves changes in the tariff rates of individual members, i.e. adjusting their tariff rates to the common and uniform level. It should be emphasized that in establishing the common market the Six intend to go beyond a customs union toward closer economic integration. The Twelve, on the other hand, merely contemplate a free trade area which would be a much looser type of organization. As currently planned, the core of the ECM will be surrounded by the FTA. But the Six are now going ahead with their plan, without waiting for the results of the impending negotiations by the Twelve.

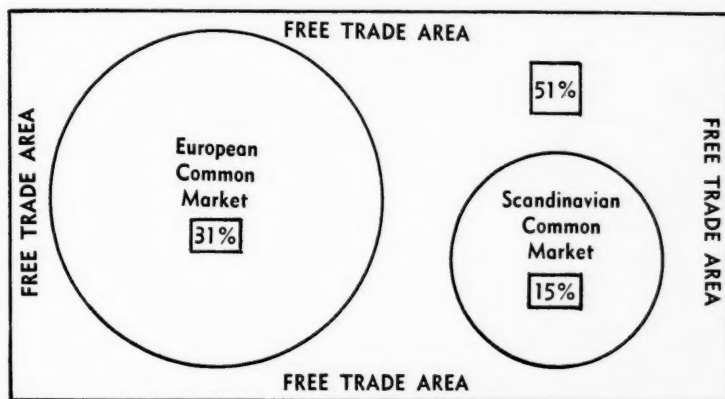
The third organization under current consideration is of lesser significance to world trade. It is a common market for the four Scandinavian countries: Sweden, Norway, Denmark and Finland (henceforth referred to as the SCM) with a combined population of 19 million and gross national product of \$19 billion. This plan is far advanced, and like the ECM will be implemented regardless of whether the FTA is established or not. But the Scandinavian countries would prefer to incorporate their common market in the FTA, and are holding up their plan with the intention of introducing it simultaneously with the FTA.²

Bearing in mind that the plans are in different stages of development, the three schemes can be summarized as follows:

Viewed in the general context of the post-war era, the three plans can be regarded as a continuation of efforts to free intra-European trade. The Organization for European Economic Co-operation (OEEC), charged with

¹The following additional countries may join under special conditions: Iceland, Ireland, Portugal, Greece, Turkey, Spain and Finland. These countries have a combined population of 77 million, and a gross national product of \$23 billion.

²Finland's position is still indeterminate. It would definitely join the SCM, but would have certain difficulties in joining the FTA. If, however, the Scandinavian countries join the FTA as a bloc, Finland may have no choice but to go along.



1. *The Free Trade Area:* Consisting of 12 or more countries. No tariffs or quantitative trade restrictions within the area. Tariff rates on imports from countries outside the area are determined as follows: if the free trade area country belongs to one of the two common markets—the uniform tariff of “the market” applies; if not (e.g. Great Britain or Switzerland)—rates are determined by individual country.
Intra-trade:³ 51 per cent of total export (Table 1).
2. *The European Common Market:* Consisting of six countries. No tariffs or trade barriers within the market or on imports from other free trade area countries. Common and uniform tariff rates on imports from outside the free trade area.
Intra-trade: 31 per cent of total export.
3. *The Scandinavian Common Market:* Consisting of four countries. Same arrangement as that of the European common market.
Intra-trade: 15 per cent of total export.

If the Free Trade Area is not established, then the two Common Markets are likely to be established independently.

the trade liberalization program during the post-war period, has probably reached the limit of its ability in this area. At the same time the European Payments Union contributed significantly to the establishment of a free and efficient payment mechanism within Europe which is essential for a smooth flow of trade. The time has now come to take the final step and completely free intra-European trade. The FTA is planned with that pur-

pose in mind. Viewed in long historical perspective, the plans are a step toward the dream of a United States of Europe.

Having taken a bird's eye view of the existing plans, we are now in a position to examine them closely, and subsequently to evaluate their economic effects.

THE EUROPEAN COMMON MARKET

Although the treaty of the ECM signed by the Six is a complex one,

³I.e., trade among member countries.

its major provisions can be summarized as follows:

- a. *A Customs Union For Industrial Goods.* This is the most important single item in the treaty. It involves removal of all tariffs and quantitative trade restrictions among the six member countries, and the establishment of a common and uniform tariff around the area for imports from the outside. This is to be accomplished gradually over a transitional period of 12-17 years. The common tariff on each commodity will be the average of rates now charged by the four individual customs areas (Western Germany, France, Italy and the three Benelux countries).
- b. *A Common Policy Toward Agriculture.* Almost all Western European countries have programs supporting the agricultural sector of their economies. While barriers to inter-member trade in agricultural products are to be abolished, the six members will replace their individual agricultural policy by a policy common to all.
- c. *Freedom of Movement For Factors of Production.* The treaty provides for free movement of labor (the implications of this to the immigration laws of individual countries are not clear yet), services and capital within the common market.
- d. *Other Principles.* In addition to the provisions stated above, the treaty provides for rules of competition within the common market and for harmonization of social and economic policies of member countries (for example, equal pay for men and women in each country, standard working week, same paid holidays, similar social changes in industry, some coordination of monetary and fiscal policies and the like); finally, like most other treaties, it contains escape clauses which permit countries to postpone, for a definite time period, the implementation of the agreement in cases of serious injury to a certain industry or in case of balance of payments difficulties.

- e. *Political Institutions.* Also provided by the treaty are the political and economic institutions to govern the operations of the ECM, such as the European Commission to serve as the executive organ, an Assembly to be the legislative body and a Court of Justice. A European Investment bank with a subscribed capital of \$1 billion will also be set up to assist in the economic development of the backward regions in the area (e.g. Southern Italy).
- f. *Euratom.* Another treaty, separate from that of the ECM, provides for the pooling of resources by the six nations for the establishment of an atomic energy industry. Its goal is the production of 15 million KW of nuclear power capacity by 1967 (at an estimated cost of \$5.2 billion), thus reducing considerably Europe's dependence on oil.

As contemplated by the treaty, the common market goes a long way toward complete economic integration. The growth of intra-European trade, resulting in part from the trade liberalization by the OEEC, has set the stage for such an integration. Currently, about one third of total trade of the Six is intra-trade, while over one half of their total trade is with the twelve free trade area countries. In addition, 10 percent of their total trade is transacted with French and Belgian affiliated overseas territories, which would be included in the common market. (Table 1.) While the trade of the Six with the outside world, especially with overseas areas, largely takes the form of exports of manufactures and imports of raw material, their intra-trade consists overwhelmingly of manufactures.

In spite of this pattern of trade, the problems of adjustment are expected to be severe. In the first place there are considerable differences between individual countries in their dependence on intra-ECM trade. For the Benelux countries it is about half of their total trade, while for Germany, Italy and

France the trade with ECM countries amounts only to one quarter of their total trade. The latter countries are more interested than Benelux in the formation of the FTA. Impact of the ECM on the trade pattern of individual members is likely to vary from one country to another.

More important for the adjustment to economic integration are the considerable variations in the tariff structures of the six nations. Benelux countries have low tariff rates and will have to raise them to the uniform level charged by the ECM on imports from outside. The reverse is true for Italy and France. Industries in the latter countries will therefore have to face a more difficult adjustment than those of Benelux. A major offsetting factor will arise from the prospective increase in tariff rates on raw materials imported into Belgium. This would worsen the competitive position of Belgian manufacturers.

From a broader viewpoint, however, the more difficult problems are not those related to the adjustment of individual industries to new trade conditions. These would be difficult and would involve considerable human suffering and industrial relocation. But given the proper conditions and incentives, they can be overcome. The more important economic problems arise from the fact that the integrating nations are of different external and internal economic strength. One prerequisite for an economic union is the relatively equal economic strength of the participating countries, and an overall balance of payments equilibrium for each member. In the ECM case France and Italy are considerably weaker than Germany, and France would have to put its house in order and bring its inflation under control, if the union is to take place. The determination of proper exchange rates within the union is another thorny question that would have to be faced. Finally, rules of competitive behavior

would have to be set and enforced throughout the area (the harmonization of social and economic policies are not as important).

It is because of the heavy burden imposed on the integrating nations by these problems that a long transitional period was deemed necessary. It is believed that a period of 12 to 17 years would suffice to overcome the problems of adjustment. Perhaps the most important condition for success is the maintenance, during the transitional period, of high level economic activity both in Europe and the United States. The favorable attitude toward the ECM expressed (though not without reservations) by most labor and industrial groups on the continent (as well as by the American government) reflects willingness to undertake the project and belief in its ultimate success.

THE FREE TRADE AREA

Formation of the ECM would leave other Western European countries at a competitive disadvantage. British manufacturers would face tougher competition from Germany on the continent, while Danish farmers will be deprived of markets to which their Dutch counterparts would have free access. Austria, Switzerland and the Scandinavian countries transact one third of their export trade with ECM countries. For Great Britain the proportion is one eighth. They are all interested in free access to the market of the Six. On the other hand, they have strong reasons against joining the Common Market. For the Scandinavian countries, for example, joining the ECM would mean a substantial increase in tariff rates on imported raw materials. They also object to "European Autarchy" because of their dependence on export markets outside Europe. Great Britain cannot join the ECM, because 40 per cent of its trade is transacted with commonwealth na-

tions, and the imperial preference system is the cornerstone of its trade policy. Joining the ECM would mean giving up this system as well as other commonwealth economic ties.

In order to achieve both ends, namely free access to the ECM and retainment of independent tariff rates vis-à-vis non-European countries, the non-ECM nations urge the establishment of the FTA. Great Britain is the major power behind this drive. But there is a favorable attitude toward the plan also from within the ECM, since France, Germany and Italy are interested in free access to the surrounding markets.

As now envisaged, the rules of the FTA will be as similar to those of the ECM as possible, and the transitional period would be of similar length and nature.

In spite of the considerable interest in the plan, and in spite of the high measure of trade liberalization already achieved by the OEEC, the establishment of the FTA is still quite uncertain. It is much more difficult to agree on a treaty among 12 nations than one among six. Also, a FTA presents administrative difficulties which do not arise in a customs union. An example of such problems is the question of origin of products. Since each country under a FTA scheme has its own tariff rates, commodities from non-member countries can enter a low tariff member and from there find their way—duty free—to the rest of the area (e.g. products from the British commonwealth can enter the European continent through Great Britain). How can that be prevented? Moreover, these commodities can be used by the low tariff members as intermediate materials in the processing of finished goods. The latter would then be shipped duty free to other member countries. What proportion of the final product should be "added" in a member country in order to make it eligible for a duty free status? How can such a regula-

tion be enforced? Such problems do not arise in a customs union because it has uniform tariff rates for all member countries. Some consideration was given to these problems by the OEEC Working Party which studied the FTA, but further study is necessary before the negotiation stage can be reached.

THE SCANDINAVIAN COMMON MARKET

A blueprint for a common market for the four Scandinavian countries (SCM) is already completed. However, final decision about it is awaiting further clarifications of the FTA position. If possible, the SCM will be a part of the FTA, and will be introduced simultaneously with it. But the SCM is certain to come into existence even if the FTA is not established. Moreover, even if introduced simultaneously, the SCM will reach its final stage much before the FTA.

The foundation of the SCM is to be a customs union among the four countries. Most of the intra-SCM trade will be duty free, and a uniform, low-level tariff (with average incidence of 3.7 per cent) will be levied on imports from non-member countries. This tariff would be somewhat higher than that of Denmark, lower than that of Finland, and about the same as that of Sweden and Norway. Because of the low tariff rates currently charged by the participating countries, introduction of the customs union is not expected to cause difficult problems of adjustment. Tariffs on intra-trade will therefore be eliminated as early as 1959, with only a short transitional period (5 years) allowed in special cases.

In addition to the customs union, the SCM will provide for cooperation in the fields of research, education, exchange and trade policy and economic development. The four countries also plan to establish an investment bank to aid in the development of backward territories in Scandinavia.

ECONOMIC EFFECTS

To the economist, who is interested in international specialization as a factor increasing efficiency of production, the ECM (or the FTA) is to be assessed on the basis of its contribution to the expansion of international trade. Based on this criterion, two possible effects of the ECM must be examined. The first is the favorable "trade creating" effect, namely the expansion of trade between the countries forming the organization. Member countries would start importing from each other products which earlier they had been producing themselves under unfavorable cost conditions but under tariff protection. On the other hand, there will be an unfavorable "trade diversion" effect. Member countries are likely to divert some of their imports originating outside the ECM to sources of supply inside the ECM, in spite of the less favorable cost conditions facing the latter sources. This would be the result of the tariff preference accorded to other members of the customs union. The formation of the ECM or FTA is economically beneficial if the trade creating effect is stronger than the trade diverting effect.

It is extremely difficult to assess in advance the relative magnitude of the two effects in the case of the ECM or the FTA (investigations attempting to assess the strength of the two effects in the case of Benelux have not, so far, resulted in conclusive findings). There are reasons to believe, however, that the trade creating effect will be stronger. The relatively low degree of protection at present accorded to raw materials and fuels suggests that trade in manufactures is likely to be most affected. Since intra-ECM (or FTA) trade forms a large share of the total trade of the member countries, and since it consists mainly of manu-

factures, it is likely to be affected more than trade between member and non-member countries. This result is beneficial from an economic point of view.

Internally, the ECM countries will be drawn closer economically. They will benefit from a large market, from economies of large scale production⁴ and from the combined attempt to develop the backward areas in the region. In its relationship with the outside world the ECM is likely to benefit from improved terms of trade,⁵ and from increased flow of investment capital from the United States, as American producers would attempt to circumvent the tariff wall by direct investments in the area.

Effects on business both inside and outside the ECM (or FTA) are also likely to be profound. American and Canadian companies, excluded from the market, will be placed at a competitive disadvantage and will face a smaller European export market (e.g. the film, airline and auto industries). On the other hand investment opportunities will probably increase, and many U. S. companies will be tempted to invest in Western Europe. Some American companies are already making definite plans for the establishment of branch plants in Western Europe, as well as for the formation of joint subsidiaries with European companies. They can thus circumvent the tariff wall which would otherwise discriminate against import of American products. Substantial changes and relocation are also expected to take place within Europe. In anticipation of the FTA, mergers are expected between certain French and British industries as well as between French and Italian food chain stores. The British chemical industry expects expansion of ex-

⁴This point should not be overstated, however. In most industries, the size of the domestic markets of individual European countries already provides for maximum economies of this type.

⁵Meaning: ECM countries will now get more imports (than they did as individual countries) from the outside world for a given amount of their exports. This will happen because of changes in the ratio of export prices to import prices, brought about by the formation of the common market.

ports to the continent, while the French auto industry will face stiffer competition from Germany. Before the full benefits from integration can be realized, Europe will have to undergo extensive adjustments which are likely to bring about changes in its industrial structure.

CONCLUSION

Economic integration in Western Europe would be of immense benefit to the integrating region. The benefit would go far beyond the economic sphere with political and military repercussions. From a world-wide point of view European integration is likely to provide an impetus for other regional economic schemes (an integration scheme for Latin America is already under consideration). It appears that the "regional approach", as a means for achieving a world free of

trade and payments restrictions, is gaining momentum. So far it has proven to be the only approach which met with a considerable measure of success.

Economists are far from complete accord on the desirability of the "regional approach". Objections to it range all the way from rejections of "regional autarchy", to rejections of "compartmentalizing" world trade into regions, thus driving it away from a truly multilateral system.⁶ However, proponents of the regional approach do not see it as an end in itself, but rather as a stepping-stone toward free trade in the world. Regional integration would give member countries the necessary economic strength for joining a world-wide free trade system. This argument applies with particular cogency to Western Europe. Contrary

⁶A system in which trade would flow freely and without discrimination, between all nations regardless of region.

TABLE I

Trade Pattern of the European Common Market and Free Trade Area Countries.

Trading Partner	The European Common Market Export To Import From		The Free Trade Area Export To Import From	
The Free Trade Area	56%	50%	52%	48%
The Common Market*	31	32	27	29
United States and Canada	7	13	8	14
French & Belgian Affiliated Overseas Territories	10	10	6	6
Sterling Area**	7	13	16	17
Eastern Bloc***	3	3	3	3
Finland, Spain, Yugoslavia	3	2	3	2
All Other Countries	14	9	12	10
Total	100%	100%	100%	100%
Total World ⁴ Trade (\$ billions)	18.3	17.7	32.9	35.5

* Included in the free trade area

** Excluding United Kingdom, Iceland and Ireland

*** Eastern Europe, the Soviet Union and Mainland China

Source: based on the 1956 *Economic Survey of Europe*, United Nations, Geneva 1957, Chapter IV, p. 11.

to common belief, most world trade is transacted in manufactures and is carried on between industrial countries (rather than between industrial and

raw material producing countries). Integration of a few leading industrial nations is likely to be beneficial to the world as a whole.

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Distant Early Warning on the Present Crisis

IN THE CONDITIONS of modern life the rule is absolute, the race which does not value trained intelligence is doomed. Not all your heroism, not all your victories on land or at sea, can move back the finger of fate. Today we maintain ourselves. Tomorrow science will have moved forward yet one more step, and there will be no appeal from the judgment which will then be pronounced on the uneducated.

ALFRED NORTH WHITEHEAD
Presidential Address to the Mathematical Association in England, 1916

INDEX OF BANK DEBITS
INDEX OF BUSINESS ACTIVITY
TURNOVER RATES OF DEMAND DEPOSITS

New Michigan Economic Series

THREE NEW Michigan economic series are being added to *Business Topics* in this issue. These, as shown in following charts, are indexes of bank debits and business activity for the state, and a series on the turnover rates of demand deposits for the lower peninsula.

The index of bank debits is based on reported debits in 16 selected cities, 12 from the lower peninsula and 4 from the upper, and is adjusted for seasonal fluctuations.

The index of business activity is, in turn, developed from the seasonally adjusted bank debit index by adjusting it for price change. The rationale of this adjustment is that the resulting index tends to measure the actual physical volume of business activity. The Wholesale Price Index is used as the price adjustment factor because of its sensitivity and its early availability.

The bank debit turnover series is obtained by dividing end-of-month demand deposit balances into monthly bank debit figures and expressing the result as an annual rate.

Examinations of these series points up the continuing downward slide of Michigan economic activity through March. The downward trend shows up particularly in the business activity index and in the demand deposit turnover series. The former indicates a downward trend since the all-time high point in November 1955. The March 1958 figure of 161.6 is the lowest index for that month since March 1954, and is almost 16 index points below March 1957.

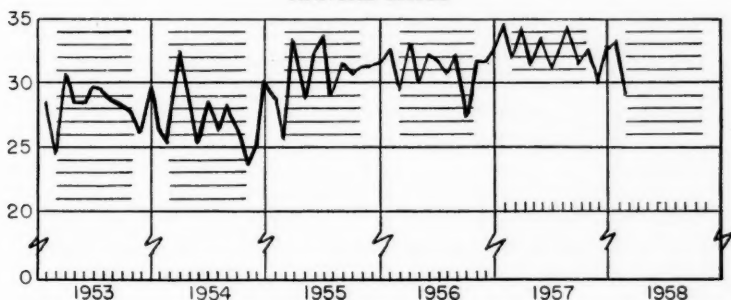
The demand deposit turnover series indicates a downward trend since January 1957. The apparent upturn in March 1958 (the last month for which reports are available) is more apparent than real, since the turnover figures are not seasonally adjusted. Actually, the current March turnover rate of 31 is the lowest figure for the month since March 1953, and compares unfavorably with the March 1957 rate of 34.29.

The Bureau of Business and Economic Research expects to develop additional Michigan economic series as time and facilities permit. These will be reported regularly in *Business Topics* as they are developed.

E.P.C.

*Turnover of Demand Deposit Accounts¹
Based on 12 Michigan Lower Peninsula Cities²*

ANNUAL RATES

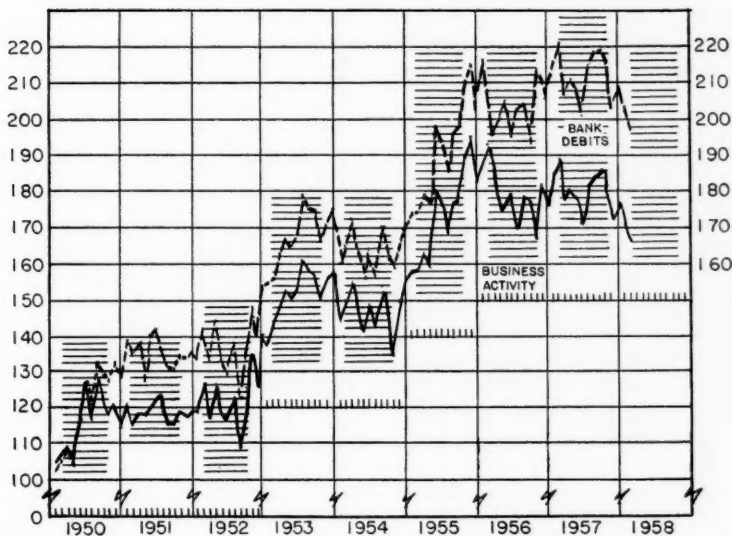


¹Basic data from Federal Reserve Bank, Chicago.

²Demand deposits from Upper Peninsula cities not available.

*Indexes of Bank Debits¹ and Business Activity²
For 16 Selected Michigan Cities*

1947-49=100



¹Bank debits adjusted for seasonality and price changes. (W.P.I.)

²Adjusted for seasonality.

All Proper



SOME TIME AGO we investigated the origin of the motto of the State of Michigan, with largely negative results, as its source could not be traced beyond the seventeenth century. In honor of this month's Michigan Week we consider the armorial bearings of the state as set forth on the Great Seal and the flag.

Lewis Cass designed the insignia adopted by the Constitutional Convention in 1835 and since modified for present-day use. The coat-of-arms would be described by practitioners of the art of heraldry in an archaic and highly specialized language elaborated in the fifteenth and sixteenth centuries. Such a description of our shield might run as follows:

The State of Michigan beareth azure and argent; in a bordure of the first, an explorer statant, sinister regardant on a peninsula, with orient sun over water, all proper. In chief, the word *Tuebor* of the second. Crest, a spread eagle grasping olive branches and arrows, with motto, *e pluribus unum*. Supporters, a deer and a moose rampant. Motto, *Si quaeris peninsulam amoenam, circumspice*.

Terminology like this, which once served a descriptive purpose, is today only an antiquarian's hobby. To elucidate: Azure and argent, or blue and silver, are named first, being the two main colors or tincts. The picture on the shield is then described: the man gazing to the right is "looking left" as the directions are named from the point of view of one carrying the shield. *Proper* means having its natural color. The word *Tuebor* is "at the top" and is "of the second", being of the second color named. Bearings such as these, containing a naturalistic scene in full color and having a word incorporated into the escutcheon, were not used until the last 150 years or so, when a shield became less a symbolic aid to ready recognition of a man's status and family and more a pictorial display.

The idea of a "pleasant peninsula" might rather have been presented, 300 years before Cass, as a shield with a deep wedge of green (for the land) against a background of conventional blue waves, correctly described as "azure and vert; on a field wavy of the first, a pile of the second". A final tribute to Michigan Week: Henry VIII, a stickler for form in heraldic representation, would have despised our coat of arms with its explorer all proper and its three mottoes, but he would have been delighted by our engaging robin atop the Mackinac Bridge.

A.C.G.

Technical Assistance Diplomacy

By Jahangir Amuzegar

Russia and the United States vie for the friendship of the backward nations. In his consideration of their rivalry, the author makes some suggestions for the separation of technical aid from political alliance.

THE YEAR 1950 marked the beginning of a new era in world diplomacy. In June of 1950 the U. S. Congress, responding to President Truman's inaugural address of 1949, passed an Act for International Development¹ authorizing the American government to offer technical assistance to the underdeveloped areas of the world. At about the same time, and amid the worldwide excitement over America's "bold new program", a 4-year trade agreement was concluded in Kabul providing for the services of Soviet "technicians" along with the delivery of some Russian equipment to hitherto pro-Western Afghanistan. Thus in quite dissimilar fashions the world's two major powers laid the foundation for launching a new, but essentially similar, economic campaign in the conduct of their global cold war. The outcome of the International Development Act was the establishment and the rapid expansion of the so-called

Point Four program. The aftermath of the Afghan-Soviet agreement was a slow but steady infiltration of Russian "technical experts" into the industrializing economies of Asia, Africa, and Latin America.

The marked increase in the Soviet offers of technical and economic assistance to the underdeveloped world during the last three years has added a new dimension to the struggle for competitive coexistence between East and West. The Communist economic offensive is now waged over an area stretching from Laos to Colombia, and from Chile to Iceland. The purpose of this paper is to show that the Communist aid offers are no longer a promise or a bluff but a real and serious challenge to the United States and the West. A comparison of the U. S. and Soviet Technical Assistance programs in the Middle East and Southeast Asia indicates that the tactics used by the Soviet bloc give the Communists some powerful short-run advantages over the United States. And unless the nature of the Soviet economic campaign is thoroughly understood and shrewdly acted upon by the United States, America's long-run competitive position in these areas might be seriously weakened.

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THE IDEOLOGICAL STRUGGLE

The competition between the United States and Russia for winning the friendship of the people in the under-

¹Title IV of An Act to Provide Foreign Economic Assistance, Public Law 535, 81st Congress, 2nd Session.

developed world is of course not new. It goes back to the end of the second World War. As European "colonialism" began to crumble after the War, and new sovereign nations appeared in the international scene, an ideological struggle between the United States and the Soviet Union gradually developed. To most of these new nations, the Soviet Union promised help to overthrow their existing institutional order and to build their economies on an egalitarian, collectivistic basis. The United States, on the other hand, favored a non-violent, essentially bourgeois "revolution" which could introduce slow and gradual changes toward a more democratic and capitalistic system. Both rivals seemed to regard their security and prosperity as being closely allied with the realization of some long-felt aspirations in the undeveloped countries. Neither power could be indifferent to economic poverty or political frustrations in these areas. Nor could one afford to lose the friendship and support of these countries to the other. Economic and social progress of the underdeveloped areas, in turn, was believed to be achieved by a program of technical assistance accompanied by productive investments.

Types of Aid. In the context of economic development, the technical assistance which these powers promised to offer is an attempt by technically advanced nations to show and teach the less developed countries how to improve the use of their actual and potential resources. In its broad sense, such aid falls into three interrelated categories. First, there is the provision of scientific information regarding practical and appropriate organization of economic activity. This type of assistance may include (1) changing methods of production in the light of available or easily adaptable techniques, (2) discovery or improvement of productive resources, particularly human

resources through better health and education, and (3) provision of additional resources from the outside. Second, technical aid may be offered to establish or improve the environment, institutions and mechanisms necessary for attaining rapid and sustained economic growth. This kind of aid may involve (1) changing the people's attitudes toward work, thrift and enterprise, (2) improving public administration, and (3) establishing credit facilities, offering market news services or guiding private investments. Finally, technical assistance may be used for the dissemination of advanced abstract knowledge in the form of (1) cultural exchanges, (2) establishment of academic institutions, and (3) the expansion of scientific contacts.

The technical assistance offered by the United States and the Soviet bloc to the governments of the Middle East and Southeast Asia falls into one or more of these varieties. American and Communist technicians are sent to work on development projects as planners, advisors or operators; local nationals are trained at home and abroad; training centers, technical institutes and vocational schools are helped to get established; scientists, engineers, and scholars are exchanged.

STRINGS ATTACHED?

The reasons behind such offers of assistance are also essentially the same. Technical aid is offered by both the United States and the Soviet bloc to countries which (1) are politically or strategically vital to the over-all foreign policy objectives of the aiding power and (2) are engaged in deliberate economic planning as a means of raising their national standards of living. Furthermore, these programs are as a rule, offered (a) in the hope of coaxing the uncommitted areas to adopt or uphold ideologies and institutions favorable to the interests of the donor and/or (b) with the intention of

strengthening the position of the "friendly" governments against the threat of internal subversion.

There are, however, striking contrasts between the United States and the Soviet bloc aids in the conditions attached to the aid offer, the degree of flexibility in program operation, and in the attributes of the staff. And here lie the greatest Russian competitive advantage and their challenge to the West.

The Communists claim that their technical services are offered without political strings. Whatever their ultimate motives may be, they seem to be making a good propaganda case of their engagements now. Iran, Israel, Lebanon, Turkey, Pakistan, Thailand and Ceylon have all received Soviet offers, and have in varying degrees benefited from the Communist bloc's trade agreements and technical services, although they are either allied with the West or are actually members of the anti-Communist Bagdad Pact, NATO, and SEATO. Communist aid is offered evidently not as a prize for siding with Russia but as a means of enhancing the attractiveness of neutralism.² A neutral position in the East-West conflict seems to be all that Communists are asking *now*. And this seems to be a price which the non-Communist anti-colonialists consider a basement bargain.

COLD WAR WEAPON?

Here the United States has followed a somewhat different policy. Under the National Security Act of 1951 and its subsequent amendments, the U. S. government is authorized to offer technical and economic assistance to friendly nations which, by developing their resources "in the interest of their security and independence" would "pro-

mote collective security and strengthen the security of the United States." Thus, with a few notable exceptions, the U. S. helping hand has been extended to those who in turn have been willing to help America in its global struggle with the Soviet Union. This close association of American technical assistance with military and strategic considerations, and the contingency of the assistance upon military alliances and regional pacts, have made the Point IV program unacceptable to the countries which do not wish to become involved in the cold war. The identification in Congress and in the eyes of American voters of technical aid with a cold war weapon has created fear and suspicion in the uncommitted areas and has added support to the Soviet charges of American imperialistic interests. Some potential recipients have reportedly found Washington's "conditions . . . too strict".³ Others have accepted the U. S. offer with some misgivings.⁴ Syria, for example, never accepted Point Four. Saudi Arabia and Egypt first accepted the U. S. offer but later withdrew their support.

Implementation. Closely connected with this policy of apolitical aid is the Soviet bloc's approach to the implementation of its technical assistance. Communist aids take the form of long-term (10-30 years) low interest bearing (2 to 2½ percent) loans or barter deals. Except for some minor interest-free loans, no significant assistance is offered free by the Soviet bloc. Technical services are part of the trade agreements signed with the recipient countries. In a sense, all such assistance is paid by the recipients in the form of commodity exports or reciprocal "gifts".⁵ Afghanistan, for example, has paid Czech

²"Views of Private American Citizens Abroad on the Foreign Aid Program," *Foreign Aid Program*, p. 1575.

³"Summary of Reports of American Citizens Abroad on Technical Assistance Programs," *Technical Assistance*, Senate Report No. 139, 85th Congress, 1st Session (Washington: 1957), p. 290.

⁴"Soviet Technical Assistance," *Technical Assistance*, pp. 401-405.

⁵"Foreign Assistance Activities of the Soviet Bloc," *Foreign Aid Program*, Senate Document No. 52, 85th Congress, 1st Session (Washington: 1957), p. 665.

technicians installing cement plants in that country with the proceeds of an 8-year, 3% loan from Czechoslovakia. East Germans have helped Egypt equip Alexandrian shipyards in exchange for cotton, manganese and phosphates; Hungarian technicians have helped Indonesia with the construction of hydroelectric stations in exchange for tin, tea and coffee. Russians have received in return as a gift Burmese rice and other goods.

By contrast, the bulk of U. S. technical assistance is in the form of grants. American technicians are paid by the U. S. government and the Treasury foots the bill for most machinery, supplies and equipment shipped abroad under the Point Four program. Although in the majority of cases the host countries are presumed to have paid their "fair" share of the costs of the "cooperative" endeavor, the U. S. has relinquished all rights to the ownership of, or future benefits from, projects that she helped establish. It is only within the last year that under the Mutual Security Act of 1957 the U. S. has drifted toward more long-term loans and away from outright grants. U. S. loans are for periods of up to 40 years and carry interest charges of 3 to 4 percent.

In couching its technical aid offers under the cloak of "partnership loans" and barter deals, the Communist bloc manages simultaneously to attain a number of economic, political and psychological objectives: (1) by acquiring its essential raw material imports from outside the hard currency areas, the Soviet bloc helps the producing countries to get rid of their "surplus" commodities; (2) by accepting these hard-to-sell products as payment for its capital goods exports, it also relieves some of the developing nations' balance-of-payments difficulties; (3) by extending business-like loans and by insisting on *quid pro quo* transactions, it soothes the pride of those who would rather be poor than accept charity.

Here again, and strange as it may sound, the United States finds itself in a curious dilemma. Being rich and powerful, its benevolence is naturally misunderstood and misinterpreted. The policy of offering outright grants, although in many cases undoubtedly more advantageous to the recipients than public loans, has the peculiar drawback of arousing suspicion regarding the real motives of the granter. Having a reputation for being shrewd and hardheaded in their business deals, and dealing with countries whose history attests the ulterior motives of their benefactors, Americans have difficulty convincing the recipient nations that their interests and the interests of the United States can *both* be served by a program of technical cooperation.

SELECTION OF PROJECTS

A contrast between the United States and Soviet bloc programs can also be seen in the selection of projects. The Soviet bloc has channeled most of its assistance into industrial and capital projects and away from agriculture and "primary" production.⁶ Projects such as power stations in Afghanistan, machine tool industries in Burma, sugar factories in Ceylon, petroleum refineries in Egypt, cement factories in Syria and an automatic textile factory in Indonesia loom large in the Soviet scheme. The Point Four program on the other hand concentrates its activities on agriculture, health and education. In most of the countries involved, American technical missions try to improve agricultural practices, to eradicate debilitating diseases, and to raise literacy standards. In many cases their success in these fields is outstanding. Yet these achievements seldom arouse as much interest as the Soviet activities seem to.⁷

⁶*The New York Times*, January 4, 1958, pp. 4-5.

⁷See *Technical Assistance in the Far East, South Asia, and Middle East*, Committee Print, 84th Congress, 2nd Session (Washington: 1956), p. 12.

One explanation is that to many of the recipients of American or Soviet aid, economic development is associated, if not sometimes confused, with industrialization. Sensing this widespread aspiration in the underdeveloped areas, the Soviet bloc shows great sympathy for their concern with industrial self-sufficiency. By underwriting quickly achievable and highly noticeable industrial projects, the Soviets try to demonstrate that Russia does not intend to treat these areas as "captive markets" for its industrial goods and that it is not "afraid" of subsidizing its own future competitors. At the same time they appeal to people's nationalistic feeling by showing that their countries are no longer regarded as mere suppliers of raw materials for the more advanced nations but instead as mature economies capable of producing what any other country can produce.

Needs vs. Desires. Another explanation is that the projects supported by the Point Four program are oriented toward more fundamental needs, but less symbolic desires, of the underdeveloped countries, i.e., improvement in human resources. Moreover these and other resources are directed into the lines where these countries have the greatest comparative advantage. The principal efforts, in other words, have been expended in (a) raising national standards of education and hygiene and (b) improving agricultural techniques. But projects in health and education, as a rule, seldom produce quick and dramatic results, and Point Four projects have been no exception. The recommendation for greater product specialization has also sometimes produced undesirable consequences, although it has been basically wise. By aiding the increase of agricultural products in the Middle East and the Orient (e.g., wheat, cotton, rice, and wool), for instance, the program has tended to increase these countries'

specialization and thus their dependence on world markets both for imports and exports. Given the instability and unpredictability of international markets, many of these countries have found such interdependence not in their best short-run advantage. This has been particularly the case insofar as the U. S. itself has followed a restrictive trade policy with regard to her agricultural imports.

Still another reason why the Soviet bloc has been successful in its program is that it has been better prepared to handle the problem of planning for economic development in most of these underdeveloped countries. Intelligence reports from the U. S. missions abroad indicate that the Soviet program is well-planned, quickly negotiated, and ably run.⁸ The reasons are not hard to find. The Soviet bloc is ideologically more favorable to economic planning than the United States is; it has also had more experience in this field. Russia itself was a backward, underdeveloped country not very long ago. Most of the Soviet bloc countries are still relatively underdeveloped and are coping with problems similar to those of the Middle East and the Orient. Many of the techniques at present used in the satellite countries are cruder, and thus more readily adaptable to the needs of other underdeveloped areas.

Adaptability. This adaptability to local conditions has not only been true of the Soviet industrial and scientific techniques but also of Communist personnel. For many American technicians the foreign assignment is an unusual and hard experience. Although humanitarian and missionary motives are important considerations for many of these technicians, economic and pecuniary motives have been the prime motives for their accepting overseas jobs. Receiving what are locally considered fat salaries and living what is locally regarded as a lavish and ex-

⁸*The New York Times*, January 5, 1958, p. 1: 7.

travagant life, they are uncomfortably envied by their native counterparts. They are generally unable to speak the native language or appreciate local customs. And they have little interest personally in promoting either democracy or free enterprise. All in all they are seldom "identified with native life" in the same way as some of the Soviet technicians are.⁹ In some cases they also suffer from the fault of their virtues; they are impatient with the slow tempo of life in the host countries; they get annoyed by, and complain about, certain official procedures and practices at home and abroad; and they are unable to reconcile some of their inner feelings and values with the exigencies of their positions. Thus although most of them carry out their mission with enthusiasm and interest, their time and effort are not always put to their best use.

The competitive advantage of the Soviet bloc, by contrast, is in the cultural heterogeneity of its population and the background and temperament of its experts. Multi-racial in its ethnic texture, the bloc is able to send abroad technicians who enjoy close cultural, religious, or psychological ties with the people they are sent to help. Some of them in fact are chosen from similar races or backgrounds as the host population. They are often able to speak local languages. Coming from relatively poor countries themselves, they possess the added advantage of being able to work at local wages and live at the same levels as the natives. Many of them are also probably under great party pressure, or administrative discipline, to do a good job. These factors obviously add to the value of their services.

MEETING THE CHALLENGE

These competitive advantages are all very alarming indeed. Yet they should

not be considered permanent or decisive. The West ought to be able to beat Russia in this competition. The U. S. advantages are no less significant, nor are they fewer. Americans have already a four year lead over their competitors. The United States has offered more aid to these areas than Russia has promised, let alone fulfilled. It has much greater wealth than the Soviet bloc, and can spare more money, materials, and manpower than the Communists can. It also has more important moral and spiritual values to offer. There is no reason why it should not win out in this race. In fact, there is every reason to believe that a more realistic orientation, a more skillful guidance, and a more efficient administration of the Point Four program in the past would have made American competitive advantages in these areas greater, or its politico-ideological losses smaller, or both. And, ironical as it may sound, it is reasonable to argue that if the Soviet bloc had not benefited from the U. S. experience, its alleged successes would have been much smaller, or its failures more spectacular.

A review of the foregoing contrasts between the U. S. and the Soviet bloc programs might suggest some policy guidance for the future conduct of the U. S. technical assistance program. Among such possible suggestions are the separation of technical aid from military support, the orientation of development projects toward the countries' real needs, greater emphasis on trade agreements and long-term loans, more consistency between development and trade policies, more flexible administration and a better selection of technical assistants. In order to enjoy the full cooperation of the people in the Middle East and Southeast Asia, United States technical assistance should be separated from political and strategic programs and should be extended on its own merits and for reasons of its own. The

⁹"Summary of Reports of American Citizens Abroad on Technical Assistance Programs," *Technical Assistance*, pp. 290-291.

United States should be prepared to offer help to countries which promise to preserve their independence and integrity even though they are unwilling to join military alliances. The aid, at the same time, should be offered only to the governments which give real assurance of using it for the prosperity and welfare of their *people*. In order to have lasting effects on the recipient economies, technical assistance should be treated as a *long-range* program designed to solve long-range problems, and not as a short-run tactical device. To insure an efficient and rational utilization of the technical aid, and to avoid charges of political self-interests, the United States should let the recipient countries bear the full cost of such assistance. At the same time, in order

to help pay for the use of foreign technical services, the United States should make available to these countries long-term, low-interest-bearing credits to be repaid in kind or local currency. The latter policy would require some liberalization of American trade restrictions to allow larger American imports, particularly of agricultural products. Finally, to be of any real service to these areas, the U. S. technical assistants should be selected from among dedicated individuals who possess sufficient knowledge and appreciation of local conditions and have the necessary *expertise* to deal with local problems. It is through such measures as these that the United States can expect to meet the Soviet challenge in this new line of diplomacy.

The University Museum

AMONG THE DEVELOPMENTS that are giving Michigan State a secure position as one of the country's leading universities there should be numbered the recent opening of our enlarged Museum. The old Library building, extensively remodelled, provides an ultra-modern setting for the expanded exhibits currently open to the public. While the Museum's general emphasis is upon the state of Michigan, three general foci of the collection are:

Historical, comprising art historical material and material pertaining to the history of rural economy;

Natural, covering the full range of the geology, glaciology and biology of the state;

Archaeological and Anthropological

The display collections are open to the public, while the study collection and the research department are designed for the use of scholars. Hours are nine to five on weekdays, one to five on Saturdays and Sundays.

Of particular interest to the business community is the section devoted to the development of rural economy, for it portrays Michigan business and industry in the embryonic stage. *Business Topics* hopes to be able to publish an article on our pioneer rural economy in an early issue.

READING FOR BUSINESS AND PLEASURE

*Parkinson's Law*¹

THIS is a collection of unrelated essays concerning various aspects of administrative practice and procedure by a very non-ivory-tower type professor of history. It is recommended reading for all administrators, public and private, arrived or arriving. Professor Parkinson writes charmingly, and at times hilariously. In spite of his spoofing approach, there is meat for consideration in his thinking and occasionally even cause for alarm. Points are overdrawn and exaggerated in his satire, but the observations have validity, and a couple of hours invested in reading these essays will be well repaid both in enjoyment and in new slants on old subjects.

"Parkinson's Law" is a law of growth of administrative agencies. "Politicians and taxpayers," writes its discoverer, "have assumed . . . that a rising total in the number of civil servants must reflect a growing volume of work to be done. Cynics, in questioning this belief, have imagined that the multiplication of officials must have left some of them idle or all of them able to work for shorter hours. . . . The fact is that the number of the officials and the quantity of the work are not related to each other at all. The rise in the total of those employed is governed by Parkinson's Law and would be much the same whether the volume of the work were to increase, diminish, or

even to disappear." Basic to the development of the Law are two near axioms: "An official wants to multiply subordinates, not rivals", and "Officials make work for each other."

The "Law of Triviality" is developed in an essay entitled "High Finance, or The Point of Vanishing Interest." "Briefly stated, it means that the time spent on any item of the agenda will be in inverse proportion to the sum involved." This law is developed through recounting the minutes of a corporate budget committee considering such items of expenditure as a \$10,000,000 Atom Reactor, a \$2350 bicycle shed, and a monthly sum of \$4.75 for refreshments for the meetings of the Joint Welfare Committee. All committee members understand coffee and are willing to talk about it—and do.

In all there are ten essays each touching on a separate aspect of administrative procedure. Perhaps the most immediately valuable is the one on the cocktail party which develops scientifically the appropriate time to arrive, to leave, and the route and speed one should follow to most economically utilize the time there spent—in seeing the people who matter but without wasting time on those who don't.

This is not an exhaustive study. In the preface, Parkinson tells us that more is yet to come. "The recent discovery in a certain field of warfare that the number of the enemy killed varies

¹*Parkinson's Law and Other Studies in Administration.* C. Northcote Parkinson, Houghton Mifflin Company, Boston, 1957, pp. 113.

inversely with the number of generals on one's own side has opened a whole new field of research. A new significance has been quite recently attributed to the illegibility of signatures, the attempt being made to fix the point in a successful executive career at which

the handwriting becomes meaningless even to the Executive himself. New developments occur almost daily. . . ."

JOHN M. HUNTER

Acting Head

Department of Economics

Books in Brief

BARBASH, JACK. *The Practice of Unionism: An Inside Picture of Labor Unions Today*. New York, Harper & Brothers, 1956.

With the emphasis that is being placed on management-union relationships this book is of timely importance. The author stresses the period since the passage of the Taft-Hartley Law in 1947. Many facets of unionism are discussed including the reasons why workers join unions; the way in which unions are governed and administered; the rise of communism and racketeering; and there is a provocative chapter discussing the challenge of union leadership today.

FRIEDMAN, EDITH J. *Handbook of Real Estate Forms*. Englewood Cliffs, New Jersey, 1957.

An excellent guide to the more common forms used in the real estate field. The author surveyed thousands of real estate firms, law firms and others before the final selection was made. Arrangement by type of transaction makes it easy and quick to find the form needed.

JASNY, NAUM. *The Soviet 1956 Statistical Handbook: A Commentary*. East Lansing, Michigan State University Press, 1957.

RUSSIA. *National Economy of the U.S.S.R.; Statistical Returns*. Moscow, Foreign Languages Publishing House, 1957.

One of the first sources to use in making an economic study of the U.S.S.R. will be the official statistics as released in 1956. Included in this volume are statistics covering most aspects of the Soviet economy. As many of the tables may be difficult to interpret correctly the user will find Jasny's book to be of great value. In his work Jasny has attempted to evaluate the official Soviet statistics.

KOHLER, ERIC L. *A Dictionary for Accountants*. 2nd ed., Englewood Cliffs, New Jersey, 1957.

A new edition of an accounting dictionary that has proved to be very popular. This edition maintains all of the features of the first plus more than 300 new terms, and older terms have been modified to meet current usage. Included in the second edition are definitions from other fields such as law, insurance, economics, and mathematics which have an interest to accountants.

W.S.S.

Current Business Conditions

BY JOHN H. HOAGLAND

THE "BOTTOMING-OUT" stage of the current business recession has started. The course of business continues downward, but the rate of decline shows signs of slowing. Already this recession has exceeded the proportions of the other post-World War II recessions, but the decline should not continue too much longer. Sometime during the third or fourth quarters of 1958 the lowest point in this recession should be passed. Exactly when will be determined to an extent by events yet to come which may speed up or slow down the bottoming-out process.

Belatedly, many adjustments in the business community have been made to combat effects of the recession. Prices in general, however, have continued to press upward. Thus the dangers of inflation remain as a serious threat to the future course of business.

A brief summary of some of the available current business data is given below.

PRODUCTION ACTIVITIES

Industrial Production, as measured by the Federal Reserve's seasonally adjusted index, suffered an 11 point decline during 1957 and about a 10 point decline so far in 1958. The rate of decline, however, now shows signs of slowing.

Month	Index	Month	Index
September	144	January	133
October	141	February	130
November	139	March	128
December	136	April	126
(estimated)			

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Barron's Weekly Index of physical volume of business, adjusted for seasonal and long-term growth trends, for recent months and weeks indicates this slowing decline as follows:

Week Ending	Barron's Index
Oct. 5	99.2
Nov. 2	97.7
Dec. 7	94.8
Jan. 4	90.0
Feb. 1	87.3
Mar. 1	85.9
Mar. 8	83.5
Mar. 15	83.7
Mar. 22	82.2
Mar. 29	81.2
Apr. 5	81.5
Apr. 12	81.2
Apr. 19	81.1
Apr. 26	80.4

Steel Production indicates the declining activity for the same period as follows:

Week Ending	Index 1947-49=100	% of Rated Capacity
Oct. 5	131.7	82.6
Nov. 2	127.1	79.7
Dec. 7	114.0	71.5
Jan. 4	93.4	55.6
Feb. 1	90.8	54.1
Mar. 1	91.8	54.6
Mar. 8	88.7	52.8
Mar. 15	91.1	54.2
Mar. 22	88.2	52.5
Mar. 29	85.0	50.6
Apr. 5	81.7	48.6
Apr. 12	81.4	48.5
Apr. 19	80.0	47.6
Apr. 26	79.1	47.1

Automobile Production continues to be of the hardest hit segments of the business community. For the months of March and April production was the lowest since 1948. For the first four

months of 1958 production was only 67% of the like period of 1957. With inventories of new cars still high, labor contracts terminating, sales disappointing, and model changeover time approaching, automobile production is expected to continue at a low level at least until the 1959 model production starts. For recent weeks it has been as follows:

Week Ending	1958	1957	% Change from 1957
Mar. 1	91,608	140,162	-35
Mar. 8	83,892	141,038	-40
Mar. 15	86,441	138,646	-38
Mar. 22	80,471	130,151	-38
Mar. 29	93,929	130,318	-28
Apr. 5	64,358	126,194	-49
Apr. 12	84,121	118,327	-29
Apr. 19	73,394	123,633	-30
Apr. 26	58,664	119,999	-51

Railroad Carloadings continue as a reasonably reliable business indicator and show the decline in the recent months and weeks as follows:

Week Ending	% Change from Year Ago	% Change from Preceding Week
Oct. 5	- 8.3	
Nov. 2	-10.8	
Dec. 7	-16.3	
Jan. 4	-15.9	
Feb. 1	-15.1	
Mar. 1	-21.4	
Mar. 8	-19.1	-1.7
Mar. 15	-21.8	-0.9
Mar. 22	-22.3	-1.1
Mar. 29	-23.4	-0.3
Apr. 5	-19.9	-3.0
Apr. 12	-22.7	+0.9
Apr. 19	-22.2	+2.5
Apr. 26	-22.7	-0.1

Electrical Output continues to lag far behind its "usual" 10% yearly increase. The "central industrial" area data show how it has been hit harder than the nation as a whole in the recession.

Week Ending	National % Change from 1957	Central Industrial % Change from Year Ago
Mar. 1	+0.1	-3.1
Mar. 8	-0.6	-3.0
Mar. 15	+1.8	-1.1
Mar. 22	+0.3	-2.5
Mar. 29	-0.4	-4.2
Apr. 5	-3.1	-8.1
Apr. 12	-3.3	-6.0
Apr. 19	-3.3	-6.2
Apr. 26	-0.9	-4.0

Construction Activity is declining in areas of private support, but is rising in areas of public support, such as highways and public housing. During March private housing under construction dropped 5% below March, 1957, to its

lowest level since early 1949. For the first quarter construction contracts for manufacturing buildings were down a sharp 46% below a year ago.

CONSUMPTION ACTIVITIES

Department Store Sales still show signs of consumer resistance, as well as signs of consumer optimism, having dropped only an average of 2% below 1957 for the first quarter. Due to an earlier Easter season and variations in weather conditions the weekly data are quite erratic.

Week Ending	% Change from 1957	Week Ending	% Change from 1957
Mar. 1	+ 1	Apr. 5	+11
Mar. 8	+ 7	Apr. 12	-16
Mar. 15	- 1	Apr. 19	- 9
Mar. 22	- 4	Apr. 26	+ 4
Mar. 29	+ 2		

Chain Store Sales, as measured by a survey of 49 of the nation's chain stores, indicate activity still rising but not as much as usual. February total sales gained 1.6% over February 1957, and March sales, due to an earlier Easter, gained 6% over 1957. By types of stores the activity was as follows:

Type of Store	Percentage Change from Year Earlier		
	February, 1958	March, 1958	3 months, 1958
Variety	- 4.1	+ 4.0	+ 1.0
Grocery	+ 9.2	+ 9.4	+ 9.6
Mail Order	- 5.2	- 0.6	- 2.0
Women's Wear	- 8.1	+12.7	+ 3.5
Men's Wear	-19.3	+ 9.6	- 5.6
Shoes	- 4.3	+23.6	+10.1
Auto Accessory	- 0.1	- 0.4	+ 3.0
Junior Dept. Store	- 6.2	+ 1.1	0.0
Drugs	+ 9.2	+ 8.7	+10.6
Furniture	-33.9	-16.5	-21.9
Total	+ 1.6	+ 6.0	+ 4.2

Paperboard new orders and order backlog have continued to run behind last year as follows:

Week Ending	(Thousand Tons)			
	New Orders		Order Backlog	
	1958	1957	1958	1957
Mar. 1	289.4	350.8	363.0	454.3
Mar. 8	321.2	302.9	418.4	478.9
Mar. 15	249.5	255.7	393.1	443.3
Mar. 22	239.6	257.2	359.2	408.0
Mar. 29	259.4	275.7	351.9	408.3
Apr. 5	335.0	360.5	404.2	490.0
Apr. 12	236.8	259.6	382.2	463.2
Apr. 19	230.1	229.0	336.7	403.9
Apr. 26	224.4	235.2	326.6	388.9

Automobile Sales have continued to lag about 30% behind those of a year ago. There has been some pick-up in sales due to seasonal factors and increased promotional activity, but in general the sale of 1958 model cars has been disappointing. If they should falter as badly as the 1958 models have, further depressed conditions could be in store for the business community. A satisfactory

labor contract settlement and well accepted 1959 models could provide a stimulus to business, especially durable goods.

Inventories continue to be liquidated, especially in durable goods items. *Manufacturers' inventories* continue to be high in relation to sales:

Month	Billion Dollars		
	Inventory	Sales	Sales to Inventory Ratio
Nov. 57	31.5	13.5	2.33
Dec. 57	31.1	13.1	2.37
Jan. 58	30.6	12.6	2.42
Feb. 58	30.2	12.0	2.48

On a seasonally-adjusted basis manufacturers' new orders fell 500 million dollars during the two months, February and March. Meanwhile unfilled orders dropped a total of 2.3 billion dollars, with most of the fall in durable goods.

Unemployment continues high, as 7.5% of the labor force in mid-April. Employment is also reasonably high, being only 2.5% below employment of a year ago in mid-March. There has been some tendency for unemployment to decrease in the last two months, but this has been less than the usual spring seasonal decline.

Prices continue at a high level as indicated by the Bureau of Labor Statistics Index of Consumer Prices climbing to an all-time high of 123.3 in March. This was 4.4 points above a year ago. The BLS Wholesale Price Index for all commodities also remains high, although it does show a slight decline in recent weeks.

Week Ending	Wholesale Price Index		% Change from Year Ago	Week Ending	Wholesale Price Index		% Change from Year Ago
	1947-49=100				1947-49=100		
Mar. 1	119.2		+2.0	Apr. 5	119.6		+2.0
Mar. 8	119.4		+2.1	Apr. 12	119.6		+2.0
Mar. 15	119.6		+2.3	Apr. 19	119.5		+1.9
Mar. 22	119.7		+2.4	Apr. 26	119.4		+1.9
Mar. 29	119.8		+2.5				

SUMMARY

The recession has been a serious one, but the worst rates of decline seem to be passed. The bottom has not yet been reached, but the bottoming-out process has started. Unless business takes a turn for the worse, the low point in the recession should be reached during the third or fourth quarter of 1958.

As shown by many indicators, production activities have declined considerably, but much of this has been concentrated in the durable goods items. This has been similarly true for sales, with non-durable items fortunately not slumping too much. Inflation still remains as a threat to business, but shows some signs of being curbed.

MICHIGAN BUSINESS STATISTICS

BANK DEBITS

City	Bank Debits (Thousands of \$'s)		Percent Change from Previous Year	
	Feb. '58	March '58	Feb. '58	March '58
Adrian	24,276	27,351	- 9.2	-11.1
Battle Creek	68,072	79,339	- .4	- .4
Bay City	46,828	50,845	- 5.8	-15.3
Detroit	5,549,876	5,765,512	-17.2	-16.0
Flint	146,971	146,278	+ .2	- 7.4
Grand Rapids	290,381	313,418	- 4.4	+ 4.5
Jackson	83,160	81,817	- 4.6	-22.9
Kalamazoo	137,870	149,000	- 3.0	- 8.7
Lansing	139,181	143,725	- .1	- 6.7
Muskegon	83,131	82,940	+ 2.4	-11.9
Port Huron	36,302	36,921	- 7.6	-14.7
Saginaw	103,260	109,463	- 8.8	- 9.2
Escanaba	11,228	12,445	- 4.4	- 9.6
Marquette	12,226	11,722	- 3.5	-14.3
Sault Ste. Marie	8,581	9,499	+ 3.6	+ 4.4

Sources: Federal Reserve Banks of Chicago and Minneapolis and Board of Governors of the Federal Reserve System

DEPARTMENT STORE SALES

	February, 1958 Percent Change From		Percent Change 1958 vs. 1957
	January '58	February '57	
Battle Creek	- 9	+ 4	+ 4
Detroit*	-11	-15	-11
Flint*	-18	-23	-19
Grand Rapids*	-19	-14	- 9
Jackson*	- 7	-13	- 8
Kalamazoo*	-19	-20	-12
Lansing*	-16	- 8	- 4
Muskegon	-20	-13	-11
Port Huron	-18	- 9	- 3
Saginaw*	-22	-18	-14

*Metropolitan Areas

Source: Federal Reserve Bank of Chicago

MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S.

	Factory Sales			Percent Change from Previous Year		
	Jan. '58	Feb. '58	Mar. '58	Jan. '58	Feb. '58	Mar. '58
Passenger Cars	462,674	383,516	346,297	-26.3	-32.7	-24.5
Motor Trucks	64,008	54,020	57,636	-29.8	-41.1	-26.9
Motor Coaches	295	293	313	+10.3	+43.3	-12.2

Source: Automobile Manufacturers Association

